



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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July 24, 2008

TO: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Wendy Watanabe*
Acting Auditor-Controller

SUBJECT: **ANTELOPE VALLEY HOPE FOUNDATION CONTRACT REVIEW – A
DEPARTMENT OF PUBLIC HEALTH HIV/AIDS PREVENTIVE CARE
SERVICE PROVIDER**

We completed a fiscal review of Antelope Valley Hope Foundation (AVHF or Agency), a Department of Public Health (DPH) HIV/AIDS preventive care service provider.

Background

The DPH's Office of AIDS Programs and Policy (OAPP) has three contracts with AVHF to provide HIV/AIDS preventive care outreach, develop and maintain a provider network for clients and strengthen the Agency's infrastructure and services. AVHF is located in the Fifth District.

At the time of our review, AVHF had three cost reimbursement contracts with OAPP. The Agency received approximately \$290,000 in OAPP funds during March 2006 to June 2007.

Purpose/Methodology

The purpose of our review was to ensure that AVHF appropriately charged OAPP for the services provided in accordance with the County contracts. We also evaluated the adequacy of AVHF's accounting records, internal controls, and compliance with the contract and applicable federal and State fiscal guidelines.

"To Enrich Lives Through Effective and Caring Service"

Results of Review

Overall, the areas of non-compliance noted in this review are significant and indicate that AVHF has a limited capacity to comply with the County contract and account for program funds. AVHF also billed OAPP for undocumented and unallowable expenditures totaling \$80,495. Specifically, AVHF:

- Did not provide documentation to support payments totaling \$37,344 made to the Board President and the Deputy Director.
- Did not provide documentation to support non-payroll expenditures totaling \$23,109. Subsequent to our review, the Agency repaid \$12,203 to OAPP. Also, the Agency provided additional documentation to support some mileage costs. As a result, the unsupported costs were reduced to \$10,234.
- Did not maintain documentation to support \$28,865 in payroll expenditures billed to OAPP.
- Billed OAPP \$4,052 for non-program related expenditures.

In addition, the Agency lacked sufficient internal controls over basic business processes to ensure program assets were safeguarded and that program funds were used in accordance with the County contract. For example, AVHF:

- Did not have working capital to sustain the Agency's operating expenditures for at least 90 days.
- Did not pay payroll taxes for 2006 and 2007 even though a portion of the payroll taxes were withheld from their employees. In addition, AVHF's accounting records reported a payroll tax liability of approximately \$125,000 for prior unpaid taxes to the Internal Revenue Service and the State Employment Development Department.
- Did not record all revenue received from the County in their financial records and they did not deposit \$52,205 in OAPP payments into the Agency's bank account. In addition, their financial records did not report all program expenditures. As a result, AVHF's accounting records were substantially incomplete and did not accurately report their financial activity.
- Did not have a written Cost Allocation Plan.

Subsequent to our review and AVHF's response, AVHF indicated that they will not renew their contracts with OAPP when they expire in August 2008. OAPP needs to ensure that the Agency repays the County for the unsupported and unallowable expenditures.

The details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with AVHF and OAPP on April 4, 2008. We allowed AVHF an opportunity to provide additional documentation that validated their fiscal activities. In instances where the Agency provided appropriate documentation, we adjusted our report accordingly. In their attached response, AVHF agreed with a majority of the findings and recommendations. However, AVHF disagreed with the undocumented expenditures and loan repayments and indicated they would provide the documentation for the unsupported expenditures. If documentation is not provided, OAPP needs to ensure that AVHF repays the County for the unsupported and unallowable expenditures.

We thank AVHF for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (626) 293-1102.

WLW:MMO:DC

Attachment

- c: William T Fujioka, Chief Executive Officer
Jonathan E. Fielding, Director, Public Health Department
Raymond Johnson, Board President, Antelope Valley Hope Foundation
Public Information Office
Audit Committee

**HIV/AIDS PREVENTIVE CARE SERVICES
ANTELOPE VALLEY HOPE FOUNDATION
FISCAL YEAR 2006-2007**

FINANCIAL VIABILITY

Objective

To determine whether Antelope Valley Hope Foundation (AVHF or Agency) is financially viable and has the ability to meet its current obligations. In addition, determine whether the Agency maintained sufficient working capital to sustain the cost of the program for at least ninety (90) days.

Verification

We interviewed AVHF's management and reviewed the Agency's financial records, cash flows, liabilities and earnings.

Results

AVHF did not have sufficient working capital to sustain the cost of the program for 90 days. During May 2006 to February 2007, the Agency incurred \$687 in overdraft bank fees because the Agency did not have sufficient cash to cover the checks they issued. In addition, the Agency's audited financial statements for December 2005 reported outstanding debts of approximately \$201,000 from prior periods which include \$125,102 in accrued payroll taxes and \$26,908 in loans payable to the President of their Board of Directors. The County's OAPP contracts represent 89% of the Agency's funding source. It appears that the Agency does not have any other means to pay its prior debts.

Additionally, AVHF could not provide documentation indicating that they had paid their payroll tax liability to the State and Internal Revenue Service in 2006 or 2007 even though payroll taxes were withheld from the employees during the period.

The areas of non-compliance noted above and in the remaining sections of the report, are significant and indicate that AVHF has limited capacity to comply with the DPH contract. We recommend that DPH terminate its contract with AVHF.

Recommendation

- 1. DPH management terminate the contracts with AVHF.**

Subsequent to our review and the Agency's response, AVHF indicated that they will not renew their contracts with OAPP after the contracts expire in August 2008.

CASH/REVENUE**Objective**

Determine whether cash receipts and revenue are properly recorded in the Agency's accounting records and deposited timely into their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed the Agency's personnel and reviewed their financial records. We also reviewed the Agency's November 2006 bank reconciliations for two bank accounts.

Results

AVHF lacked sufficient controls over cash and did not ensure that all payments from OAPP were adequately accounted for and promptly deposited. Specifically, the Agency:

- Did not deposit \$13,040 in OAPP funds into their bank account.
- Did not record \$290,176 (100%) in OAPP funds in their accounting records.
- Did not provide documentation to support withdrawals totaling \$3,289. In addition, the Agency's staff can not explain the purpose of the withdrawals.
- Did not complete their bank reconciliations within 30 days of the bank statement date and were not signed by the preparer or reviewer.
- Did not adequately reconcile the beginning and ending cash balances listed on the bank statements to the Agency's financial records on their bank reconciliations.
- Did not provide documentation to support 21 reconciling items totaling \$7,105.
- Did not have complete accounting records. As a result, 174 checks were unaccounted for, of which six checks totaling \$8,279 cleared the bank account.
- Did not record cash withdrawals listed on the monthly bank statements in their financial records.
- Routinely issued checks made payable to cash and to petty cash that ranged from \$50 to \$1,500. Checks made payable to cash can be easily negotiated by unauthorized individuals. In addition, cash expenditures are more difficult to control and support. AVHF should ensure checks are made payable to the individual or organization receiving the funds.

- Did not provide documentation to support payments totaling \$37,344 made to the Board President and the Deputy Director. In addition, the President of AVHF's Board of Directors prepared and signed checks made payable to him for loan repayments. The Agency claimed the checks were related to repaying the individuals for loans they made to the Agency. However, the Agency did not provide loan agreements showing the loan amounts, the date(s) the funds were received, interest rate charged, how much has been repaid, outstanding balance, etc.

Subsequent to our review, the Agency provided documentation for \$9,400 in loans made by the Agency's President. However, the documentation did not adequately show that loan amounts were actually received from the President since the loans were made in cash and/or bank transfers and no other documentation was provided.

- Did not require a second signature on checks. The Department of Public Health handbook requires two signatures on all checks. The second signer should be someone independent from the cash receipts and disbursement processes.

Recommendations

AVHF management:

2. **Provide a complete accounting of the unaccounted OAPP funds received.**
3. **Ensure that all program revenue received is deposited in the Agency's bank account and recorded in the Agency's financial records.**
4. **Ensure proper accountability over routine disbursements from the Agency's bank account.**
5. **Ensure that the bank accounts are properly reconciled to the Agency's financial records.**
6. **Ensure bank reconciliations are signed and dated by preparer and reviewed and approved by management.**
7. **Resolve reconciling items timely and maintain supporting documentation for all transactions listed on bank reconciliations.**
8. **Correct their financial records and ensure that the Agency's financial records accurately reflect the Agency's financial transactions.**
9. **Require two signatures on all checks and ensure that the second signer is someone independent from the cash receipts and disbursement processes.**

10. Do not issue checks made payable to cash.
11. Designate an alternate check signer to sign any check issued to AVHF's Board of Directors President.
12. Maintain documentation to support loans from Agency management and Board of Directors.
13. Repay OAPP \$37,344 for undocumented and insufficiently documented loan repayments.

EXPENDITURES

Objective

Determine whether program expenditures were allowable under the County contract, properly documented, and accurately billed to the program.

Verification

We interviewed Agency personnel, reviewed financial records and invoices submitted to OAPP for 23 expenditure transactions billed by the Agency during March 2006 to February 2007, totaling \$23,250.

Results

AVHF did not maintain documentation to support program expenditures. The Agency did not provide documentation to support \$23,109 (99%) of the \$23,250 sampled. Specifically, AVHF billed OAPP:

- \$12,203 for a portable health station that was never received or paid for by the Agency.
- \$3,886 in rent and utilities that were not supported by invoices or receipts. In addition, the Agency did not provide a rental agreement for the space occupied by the program staff.
- \$3,667 for payments to independent contractors that were not supported by invoices, contracts or other forms of documentation detailing the hours spent by the contractor working on OAPP activities, billing rates and the specific nature of the services.
- \$3,353 for various operating costs including program incentives, advertising and mileage that were not supported by invoices, receipts other documentation.

Subsequent to our review, the Agency repaid \$12,203 to OAPP. Also, the Agency provided additional documentation to support some mileage costs. As a result, the unsupported costs were reduced to \$10,234.

Recommendations

AVHF management:

- 14. Repay DPH \$10,234 for unsupported program expenditures.**
- 15. Ensure supporting documentation is maintained for all OAPP expenditures including original vendor invoices and receipts.**
- 16. Ensure all independent contractor payments are supported by service agreements which indicate the scope of service and deliverables, the number of hours to be worked, and an agreed upon rate of compensation.**
- 17. Ensure that only those costs that are allowable necessary, proper and reasonable in carrying out the purposes and activities of OAPP are charged to the program.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether the Agency's fixed assets and equipment purchases made with OAPP funds are used for the OAPP program and are safeguarded.

We did not perform testwork in this area as the Agency did not purchase fixed assets with OAPP funds.

PAYROLL AND PERSONNEL

Objective

Determine whether payroll is appropriately charged to the program. In addition, determine whether personnel files are maintained as required.

Verification

We reviewed payroll expenditures transaction charged to the OAPP for seven employees for January and February 2007 totaling \$11,766 and employee benefits totaling \$35,079 from March 2006 to February 2007. We also reviewed personnel files of staff assigned to OAPP activities.

Results

The Agency did not maintain documentation to support \$33,996 billed to OAPP. In addition, the Agency billed OAPP \$4,052 for non-program related expenditures. Specifically, the Agency:

Undocumented

- Charged OAPP \$24,425 in employee benefits that were not supported by documentation.
- Charged OAPP payroll costs for three employees totaling \$9,571. However, the Agency did not provide time reports or timecards that showed the employees worked on the OAPP program.
- Did not require staff to report the actual hours worked on the OAPP contracts on their timecards. As a result, for those employees that also work on other programs, we were unable to verify the appropriateness of the payroll costs billed to OAPP.

Disallowed

- Charged OAPP \$2,307 for an employee that no longer worked for the Agency.
- Charged OAPP \$1,346 for sick leave paid to an employee that had not accrued/earned the benefit time.
- Charged OAPP \$10,004 for salary costs that the Agency claimed they incurred. However, the actual amount paid to the employees totaled \$9,380 resulting in an over billing totaling \$399.

Subsequent to our review, the Agency provided additional documentation to support some of the payroll expenditures. As a result, the unsupported and disallowed costs were reduced to \$32,917.

Recommendations**AVHF management:**

- 18. Repay DPH \$32,917 for unsupported and disallowed salary expenditures.**
- 19. Ensure that employee timecards are consistently prepared.**
- 20. Ensure payroll billings are based on actual hours spent by employees performing OAPP related activities.**

21. Ensure that benefit balances are earned/accrued prior to compensation.
22. Ensure all employees record actual hours worked each day on their time reports to support the time spent on program activities.

COST ALLOCATION PLAN

Objective

Determine whether the AVHF's Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

Verification

We reviewed a sample of expenditures incurred by AVHF for January and February 2007 to ensure that the expenditures were properly allocated to the Agency's appropriate programs.

Results

AVHF's Cost Allocation Plan was in compliance with the County contract. However, as previously mentioned, the Agency did not provide supporting documentation for the allocated shared costs charged to OAPP. In addition, payroll expenditures were based on budget not actual costs. As a result, we were not able to determine whether the payroll and non payroll expenditures charged to OAPP were appropriate.

Recommendation

Refer to Recommendations 14 and 21.



Antelope Valley Hope Foundation
A Non-Profit Human Service Organization

May 13, 2008

Maria McGloin
Department of Auditor-Controller
County of Los Angeles
1000 S. Fremont Avenue, Unit #51
Building A-9 East, First Floor
Alhambra, CA 91803

Dear Ms. McGloin:

We have received your 2006-2007 review of the Antelope Valley Hope Foundation, Department of Public Health Service agreements.

The following are in response to the final report.

Recommendation

1. DPH management terminates the contract with AVHF.

AVHF Response:

We strongly disagree. While we are in agreement that there were a number of accounting issues with the agency, we believe many have been resolved since the April 2007 audit, or are in the processing of resolution by June 30, 2008. For the record, at the time the audit was conducted, the agency's management was in transition with March 30, 2007 the resignation of the executive director. The executive director had full responsibility for the accounting functions. Consequently, when your staff began its review, many of the records were misplaced and/or in full disarray. Additionally, the QuickBooks accounting system had missing data, entries posted incorrectly, and improper monthly reconciliation of the records.

As board chair, I take full responsibility for poor record keeping and executive oversight and have taken immediate action to bring the records in full compliance. A bookkeeper was hired and has made significant progress reestablishing our systems. As expressed in our exit conference, due the magnitude of the problem, we expect a full reconciliation of the records and systems in place by June 30, 2008.

We are committed to ensure that the agency's accounting of County funds is in proper order and would welcome a follow-up review by the Auditor-Controller.

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Phone: 661.723.3958 • Fax: 661.723.3987

www.avhf.org

Recommendations

AVHF management:

2. Provide a complete accounting of the accounting OAPP funds received.

AVHF Response:

We concur. Bookkeeper continues to account for all fund received from OAPP. This action will be completed by June 30, 2008.

3. Ensure that all program revenue received is deposited in the Agency's bank account and recorded in the Agency's financial records.

AVHF Response:

We concur. Bookkeeper continues to account for all fund received to confirm that they were deposited in agency's account. This action will be completed by June 30, 2008.

4. Ensure proper accountability over routine disbursements from the Agency's bank account.

AVHF Response:

We concur. Bookkeeper has been hired to perform accounting functions.

5. Ensure that the bank accounts are properly reconciled to the Agency's financial records.

AVHF Response:

We concur. Bookkeeper has been hired to perform accounting functions monthly.

6. Ensure bank reconciliations are signed and dated by preparer and reviewed and approved by management.

AVHF Response:

We concur. New procedures are in place where the bookkeeper signs the reconciliation report. This report is approved by management.

7. Resolve reconciling items timely and maintain supporting documentation for all transactions listed on back reconciliations.

AVHF Response:

We concur. Bookkeeper has been hired to perform accounting functions. Reconciliation will be performed monthly.

Antelope Valley Hope Foundation

3

8. Correct the financial records for the OAPP contracts and ensure that the Agency's financial records accurately reflect the Agency's financial transactions.

AVHF Response:

We concur. Bookkeeper continues to account for all fund received from OAPP. This action will be completed by June 30, 2008.

9. Require two signatures on all checks signers and ensure that the second signer is someone independent from the cash receipts and disbursement processes.

AVHF Response:

We concur. Check signing procedures has been modified to ensure that all checks require two signatures. The second signer is independent from the cash receipts and disbursement processes.

10. Do not issue checks made payable to cash.

AVHF Response:

We concur. This practice has been discontinued.

11. Designate an alternate check signer to sign any check issued to AVHF's Board of Directors President.

AVHF Response:

We concur. The agency's Treasurer will sign checks issued to the Board President.

12. Maintain documentation to support loans from Agency management and Board of Directors.

AVHF Response:

We concur. Loan documentation has been reviewed and enhanced to support loans from management and Board of Directors has been enhanced.

13. Repay OAPP \$37,344 for undocumented and insufficiently documented loan repayments.

AVHF Response:

We disagree. This review covered contract years 2006-2007. Loans to the agency extend the length of the agency existence of 11 years. All repayments were appropriate. Loans made are fully documented in agency's year's audit of financial statements conducted by its CPA.

Recommendations

Expenditures:

14. Repay DPH \$10,234 for unsupported program expenditures.

AVHF Response:

We disagree. Many if not all items listed on Non-Payroll Expenditures Testwork can be documented once accounting system in place. This system will be place by June 30, 2008.

15. Ensure supporting documentation is maintained for all OAPP expenditures including original vendor invoices and receipts.

AVHF Response:

We concur. Bookkeeper will maintain supporting documentation for invoices and receipts.

16. Ensure all independent contractor payments are supported by service agreements which indicate the scope of service and deliverables, the number of hours to be worked, ad an agreed upon rate of compensation.

AVHF Response:

We concur. Independent contractors will have a signed and approved agreement which clearly details the scope of work and program deliverables. It will include the rate of compensation.

17. Ensure that only those costs that are allowable necessary, proper and reasonable in carrying out the purposes and activities of OAPP are charged to the program.

AVHF Response:

We concur. Additional management review is in place to review all invoices to OAPP.

Recommendations

AVHF Management:

18. Repay DPH \$32,917 for unsupported and disallowed salary expenditures.

AVHF Response:

We disagree. Once the agency completes its clean up June 30, 2008, undocumented expenditures will be resolved. We do concur with the disallowed expenditures totaling \$4,052.00

19. Ensure that employee timecards are consistently prepared.

Antelope Valley Hope Foundation

5

AVHF Response:

We concur. Procedures are in place to ensure that timecards are consistently prepared.

20. Ensure payroll billings are based on actual hours spent by employees performing OAPP related activities.

AVHF Response:

We concur. All employees of AVHF during the review were 100% performing OAPP related activities. OAPP funded programs were the only ones in place.

21. Ensure that benefit balances are earned/accrued prior to compensation.

AVHF Response:

We concur. Steps are in place which support this recommendation.

22. Ensure all employees record actual hours worked each day on their time reports to support the time spent on program activities

AVHF Response:

We concur. See response to recommendation 20.

Recommendation

Cost Allocation Plan:

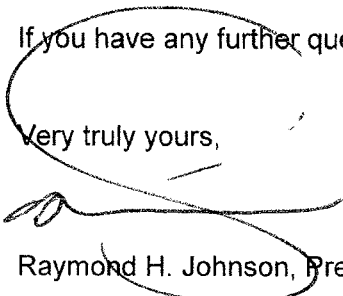
23. Refer to Recommendations 14 and 21.

AVHF Response:

Refer to response to 14 and 21.

If you have any further questions, please let us know.

Very truly yours,



Raymond H. Johnson, President

c: Michael Moore